

ALASKA VILLAGE ELECTRIC COOPERATIVE, INC.

R.C.A.  
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November 27, 2006

Commissioners  
Regulatory Commission of Alaska  
701 West Eighth Avenue, Suite 300  
Anchorage, Alaska 99501

Re: Reply Comments on R-06-05

Dear Commissioners,

AVEC has reviewed the initial comments filed in this docket. AVEC generally agrees with the initial comments filed by APA, Chugach, and ML&P. In particular, AVEC agrees with APA's discussion regarding the appropriate scope of this docket. It is important for the Commission and the commentors to understand that the new federal standards regarding net metering, fuel sources, fuel generation efficiency, time-based metering, and interconnection for distributed generation apply, if at all, only to electric utilities having total retail sales in excess of 500 million kWh per year. AVEC understands that only four electric utilities in Alaska meet this jurisdictional limit. In addition, the Commission's consideration of the new federal standards should apply only to electric utilities that are subject to economic regulation by the Commission.

Although the new standards would not apply directly to AVEC, AVEC is concerned about net metering standards in general. In addition, AVEC is concerned that if any such standard were implemented by the Commission, it could indirectly impact unregulated utilities such as AVEC through the Commission's oversight of Power Cost Equalization ("PCE") levels. For these reasons, AVEC is submitting these reply comments to ensure that its views and positions are taken into consideration in this docket.

Reply comments regarding net metering:

In its initial comments, Network for New Energy Choices (NNEC) advocates for implementation of mandatory net metering as a means of providing an incentive for customers to invest in renewable distributed generation technology. AVEC opposes mandatory net metering for Alaska utilities for the following reasons:

A. This requires the utility to pay retail rates for power purchased from the net metering customer, even though the generation costs that the utility avoids is much less. For example, in AVEC's service areas, gross residential electric energy charges range from \$0.4540 to \$0.5817 per kWh. By comparison, AVEC's incremental cost of generation ranges from \$0.1340 to \$0.2617 per kWh – or the cost of fuel per kWh. If AVEC were required to purchase power from a net metering customer, it would incur net additional costs of \$0.32 per kWh (or 120 - 240% above avoided cost) for all power purchased. Ultimately, those additional costs would be recovered from AVEC's other customers through higher energy charges. This reflects an unreasonable subsidy between customers.

B. In AVEC's service areas, that subsidy could quickly rise to significant levels. That is because of the very small scale of AVEC's operations in its 52 villages throughout rural Alaska. For example, in the village of Nightmute, AVEC has 69 customers, 519,000 kWh sales per year, peak system demand of 141 kW, and provides service using three diesel generators totaling 484 kW. AVEC's incremental cost of generation is relatively level, varying primarily only with the price of diesel fuel. Reducing load on AVEC's generation does not allow AVEC to avoid costs other than its incremental cost of fuel. It would not allow AVEC to operate its generation more efficiently. With this limited level of operations, a relatively small level of net metered distributed generation could require AVEC to purchase a significant share of its electric load from that source, with the associated increased cost resulting from having to pay retail rates for those purchases. For example, a single 5 kW generator could potentially displace 43,800 kWh a year, equating to a potential cost of \$.0295 on every kWh remaining to be sold by AVEC.

C. The power supplied from net metering customers would be interruptible power that AVEC could not rely on in its system design planning.

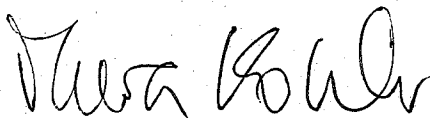
D. The factors described above are accounted for in AVEC's tariff for purchase of power from qualifying facilities (QFs) under AVEC's PURPA obligations. Our tariff includes a chart of Maximum Permissible Cogeneration by village, which is attached for your reference.

E. In addition, mandatory net metering would require AVEC to incur A&G costs to design, review, and monitor interconnection with net metering generators in very remote areas. Net metering requires AVEC to allow the net metered generator to operate in parallel with AVEC's generation. To ensure the safety of customers and AVEC personnel and protection of AVEC's generation system, AVEC would need to ensure that proper interconnection is established and maintained.

In conclusion, the concept of net metering may be appropriate for states with large utilities and, especially, for-profit utilities, but it is completely inappropriate for Alaska, which is primarily a Public Power state. Like most of its fellow cooperatives and municipal utilities in Alaska, AVEC is operated on a not-for-profit basis and its tariff and policies are established by a board of directors whose paramount interest is to establish the lowest practical rates at which to deliver safe and reliable electric energy. AVEC possesses a Certificate of Public Convenience and Necessity issued by the RCA that finds AVEC to be "fit, willing and able to serve." An individual who is permitted to become, in essence, a retailer of electricity through net-metering is in effect receiving all the benefits of a CPCN holder without any responsibility to fulfill the duties of such.

AVEC concurs with the initial comments filed by APA, Chugach, and ML&P. AVEC believes the Commission should decline to implement the new federal standards regarding net metering, fuel source, fuel generation efficiency, time-based metering, and interconnection for distributed generation. In particular, AVEC believes mandatory net metering is not necessary or appropriate in Alaska. As was explained earlier, in rural service areas like those of AVEC, mandatory net metering would impose significant additional costs of utilities and their customers.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Meera Kohler". The signature is fluid and cursive, with the first name "Meera" and last name "Kohler" clearly distinguishable.

Meera Kohler  
President & CEO

First  
Canceling  
Original

Sheet No. 78

Sheet No. —

MAXIMUM PERMISSIBLE COGENERATION OF ANY TYPE

Generation Location	In KW	Generation Location	In KW
Alakanuk	14	New Stuyahok	10.5
Ambler	10.5	Nightmute	4
Anvik	4	Noatak	12.5
Brevig Mission	7	Noorvik	16
Chevak	16	Nulato	9.5
Eek	6	Nunapitchuk	21
Elim	11	Old Harbor	7.5
Emmonak	17.5	Pilot Station	14.5
Gambell	15.5	Quinhagak	15
Goodnews Bay	6.5	Russian Mission	7
Grayling	4.5	St. Mary's	25
Holy Cross	6.5	St. Michael	10.5
Hooper Bay	21.5	Savoonga	16
Huslia	7.5	Scammon Bay	8
Lower Kalskag	10	Selawik	16
Kaltag	7	Shageluk	4.5
Kiana	13	Shaktoolik	7.5
Kivalina	10.5	Shishmaref	14
Koyuk	10	Shungnak	13.5
Marshall	10	Stebbins	11.5
Mekoryuk	8.5	Togiak	21.5
Minto	5.5	Toksok Bay	11.5
Mt. Village	22.5	Tununak	8
		Wales	4

Tariff Advice No. 1

Effective: January 1, 2004

Issued By: ALASKA VILLAGE ELECTRIC COOPERATIVE, INC.

By:

*Dawa Gault*

Title: President and CEO